SUBJECTIVE AND EXCHANGE VALUE. I.

THE nature of the causes which determine the exchange value of goods has been very thoroughly discussed during recent years, and the question has been brought near to final settlement. Its solution doubtless lies along the lines which have gradually been established in the drift of recent theoretical discussions. Apparently, however, the solution has not yet been reached. Notwithstanding the work accomplished by the Austrian school, both in the way of positive contribution to the theory, and in the way of definitely indicating the nature of the problem, this fact seems to be unmistakable. Few persons appear to be prepared to accept the marginal utility theory without some more or less definite and material reservation. There is a distinct impression that the theory does not take duly into consideration all the necessary factors in the problem, and in particular that the explanation which it offers of the influence and meaning of cost of production is somehow inadequate. The phenomena of demand appear at first sight very easily to admit of statement in the psychological terminology which the Austrian economists employ. The demand for goods is apparently well expressed as subjective valuation of them in terms of their marginal utility. Such language is more precise and convenient than the expressions which were in use in the earlier history of the science. But it is felt that cost of production is a fact of another kind, that it is objective and not subjective, and that as such it cannot be dissolved away by any process of reasoning, however skillful.

Accordingly it is sometimes said that the classical theory of value assumed the fact of demand without adequately examining into its psychological character, and devoted its attention, perhaps too exclusively, to cost of production — to the conditions of supply. The Austrian school, however, has done the work which the classical economists neglected to do. The com-

plete theory of value should therefore ignore the exclusive claim of either school to the advantage in the controversy, and appropriate the truth which each has discovered. This view finds expression in the well-known words of Professor Marshall: "The 'cost of production principle' and the 'final utility' principle are undoubtedly component parts of the one all-ruling law of supply and demand; each may be compared to one blade of a pair of scissors. When one blade is held still and the cutting is effected by moving the other we may say with careless brevity that the cutting is done by the second; but the statement is not one to be made formally and defended deliberately." "We must not indeed forget that at the time at which he [Jevons] wrote, the demand side of the theory of value had been much neglected; and that he did excellent service by calling attention to it and developing it.[1]"

The positive impressions upon which this eclectic view of the relations of the rival theories is founded, appear upon the whole to be valid. The neglect of the element of demand by the classical economists was undoubtedly a serious omission. It is also true, in the opinion of the writer, that the Austrian economists are not successful in their apparent endeavor to explain away the influence of cost of production upon value. Consequently an adequate and definitive theory of value must allow for and fully recognize the importance of the demand for goods as expressed in terms of their marginal utility, as well as the influence of the supply of them, as determined in part by their cost of production. To this extent Professor Marshall's conciliatory view may freely be accepted. In so far, however, as this solution of the controversy is not upon the whole to the advantage of the classical position, it is an eclectic compromise between the two opposing theories rather than a substantial reconciliation of them. In substance it is hardly more than a mechanical and external binding together of the conceptions of utility and cost, and is not the result of a real effort to reduce them to an organic unity as moments in a higher and an ultimate category.

[1] *Principles of Economics* (Third Edition), vol. i. pp. 564–565.

There is doubtless a good reason for the absence of any such procedure, and, upon consideration, the reason becomes quite evident. It is the presupposition, tacitly implied in the statement just quoted, that subjective valuation according to marginal utility is, as a matter of course, the operative principle on the side of demand alone, and that over against it, on the side of supply, stands a fact of different character—cost of production.

The Austrian school protests against such one-sided limitation of the scope of subjective value. The whole process of the determination of exchange value is, as they maintain, from beginning to end a psychological one, and the elements in this process are the subjective valuations of both the buyers and the sellers, in terms of marginal utility. "A dualistic explanation of the phenomena of value and price by means of the two antithetical principles of utility and cost is neither necessary nor satisfactory.[1]" The enunciation of this principle and the consistency with which the Austrian economists have held to the point of view which it indicates, are not the least among their many valuable contributions to the progress of economic science. It is indeed self-evident, upon reflection, that the phenomenon of exchange value must have a single principle of explanation, and further that this must be the principle of subjective value both on the side of the buyers and on the side of the sellers. But if we examine the theory which the Austrian school has constructed in the light of this general principle, it becomes evident that, in the interest of the undisputed validity of the principle of subjective value, cost of production has been eliminated and explained away. And thus the Austrian theory appears to share in the presupposition concerning utility and cost which was seen to underlie the eclectic position of Professor Marshall. Utility and cost are still antithetical principles. The Austrian economists, it is true, endeavor to solve this dualism in the theory of value, but they are able to effect the solution only by rejecting one of the members of the antithesis.

[1] BÖHM-BAWERK: "Grundzüge der Theorie des wirtschaftlichen Güterwerts," *Conrad's Jahrbücher*, vol. xlvii., p. 540.

It is therefore the purpose of this paper more definitely to call attention to the importance for economic theory of a study of the process of subjective value. The phenomenon of exchange value can contain no element which cannot be discovered upon examination as a characteristic element within this fundamental process. To this end it is proposed to examine the Austrian theory of exchange value. If it may be established that the position of the theory with respect to the significance and influence of cost of production is an untenable one, it will follow that the conception of subjective value which logically determines this position must be faulty in some particular. The conclusion then will be that a thorough examination of this primary phenomenon is a necessary condition to the further progress of the general theory of value. It is believed that a critical study of the treatment of cost of production by the classical economists, if possible in this connection, would still further emphasize the necessity for such investigation. The theory of subjective value as a psychological fact is the really important point at issue in the economic controversy. It is probable that an analysis of this phenomenon will disclose the presence of the element of cost as one of its constituent elements, and thus afford a basis for a theory of exchange value which shall be neither dualistic nor, on the other hand, at variance with the facts of economic experience.

I.

No detailed account of the Austrian theory of exchange value is necessary in this connection. The salient features of the theory from the present point of view must, however, be briefly recalled, with the assistance of some of the more significant passages from those writings of the school best known to English readers.

The theory logically begins with the proposition that when an exchange takes place between two persons there must be, upon either side, two acts of valuation. Under the conditions of simple barter each person must, in the first instance, place an estimate upon the good which he offers in exchange, and then upon the good offered for sale — an estimate founded in each case upon the

relation obtaining at the time between the person's want for the commodity and the provision for this want already in his possession. In the modern market, however, the commodity universally offered in exchange for goods is money, and accordingly the matter needs restatement. We now have upon the side of the buyer an estimate of the marginal utility for him of the commodity which he desires to purchase, expressed in terms of money—a comparison based upon a consideration of the amount of other commodities which this amount of money will buy. On the part of the seller we have, similarly, an estimate of the marginal utility of his wares for himself, expressed in terms of general purchasing power. If the number of prospective buyers and sellers of each commodity in the market be increased, the theoretical situation thus constructed will resemble the modern market, and a price will finally be adjusted for each commodity by a competitive process, the details of which do not just now concern us. The important fact is that subjective valuation according to marginal utility plays as important a part, logically, on the side of supply as on the side of demand. "The market price is determined within a latitude of which the upper limit is constituted by the valuation of the last buyer who actually exchanges (the last buyer) and that of the most capable seller excluded (the first excluded seller), and the lower limit by the valuation of the least capable seller who actually effects a sale (the last seller) and that of the most capable buyer excluded (the first excluded buyer.)"[1] This conclusion is significant. The process of valuation, both on the side of the buyers and on the side of the sellers, is represented as being the same in kind. It is a valuation of goods according to their marginal utility, and it is this single principle of value which the Austrian theory endeavors to substitute for any "dualistic explanation of the phenomena of value and price."

This, then, is the one ultimate principle of value, and it should be observed that, in accordance with the fundamental

[1] BÖHM-BAWERK, *Positive Theory of Capital* (English Translation), p. 208.—See in general on this subject book iv.

contention of the Austrian school, it is a psychological principle. At this point, however, a question arises: Can it be said that the producer or seller of goods, who possesses them in great abundance and who certainly can make no personal use of any considerable portion of them, really values them in the same sense in which the prospective consumer does? The consumer desires to use the goods for his own personal gratification; is the valuation of the goods by the seller a valuation of the same kind? The Austrian theory answers this question in the negative. Thus, says one exposition,[1] an important modification should be made in the ideal scheme which has just been described, before it will correctly represent the actual conditions which obtain in the market. "Sales are made by men who are producers and merchants by profession and who hold an amount of their commodities entirely beyond any needs of their own. Consequently for them the subjective use-value of their own wares is for the most part very nearly nil and the figure which they put on their valuation (in which the subjective use-value is the standard element) also sinks almost to zero. Finally comes the result that in such sales . . . price is actually limited and determined by the valuations of the buyers alone."[2] According to this exposition of the manner in which exchange value is determined, the sellers of commodities play no active part in the process. "When goods are once produced and the owner can do nothing with them for his own personal wants, they must, all the same, seek a market. To find this market the seller must, in the usual way, put his goods at a price low enough to find buyers for the whole stock he offers for sale."[3] He must submit absolutely to the demand of the buyers and accommodate cost of production, if possible, to it.

Another statement of the theory offers a slightly different exposition of this step in the process.[4] Unlike the one just out-

[1] *Positive Theory of Capital.*

[2] *Ibid.* p. 220; Also *Conrad's Jahrbücher*, vol. xlvii. p. 521.

[3] *Ibid.* pp. 220, 221.

[4] F. Wieser, *Natural Value.*

lined it appears at first to retain subjective exchange value on the part of the seller, as a factor in the process throughout. "The proximate basis of valuation [of his goods, by the seller] is the expected money proceeds, or the exchange value of that money; the ultimate basis is that use-value which is anticipated from the exchange value of the money proceeds." Again, "the exchange value which we have here explained is that value which is ascribed to goods either by reason of the owner's intention to sell them or because of the possibility of replacing them by purchase."[1] Subjective exchange value in the last resort is the value of the anticipated selling price of the goods offered for sale, measured always in terms of articles of personal consumption which it is expected to purchase. This is evidently a recognition of the fact that sellers do unquestionably value their goods, and, in so far, this exposition has decidedly the advantage of the other.[2] It is, however, able to make no use of its advantage. It is presupposed by this form of the theory, just as by the first, that "the sellers are forced to get rid of the entire quantity of goods which they have brought to market . . . . the goods having been produced for sale and being of no personal use to the sellers."[3] In the determination of price "what decides is on the one side the amount of stock . . . . and on the other side the want with its varying gradations."[4] Thus the apparent suggestion that seller's valuation may be a really influential factor in the market is in fact only an apparent one. Any such admis-

[1] *Natural Value*, pp. 48, 49.

[2] Professor Böhm-Bawerk explains in the "Grundzüge" (*loc. cit.* p. 516) his neglect of the prospective exchange value of goods offered for sale as a possible basis for their normally permanent valuation by the seller. In brief the reason for this neglect is the very fact that the exchange value *is* prospective. As such it can only be provisional and hypothetical — anticipatory of a possible condition of the market. "In the face of the actual situation our mere conjecture naturally loses all its validity, the valuation based upon it collapses, and we have no longer any thought of ordering our practical dealings in accordance with it" (p. 517). If Wieser's view has the merit of recognizing, even though imperfectly, a very important fact, Böhm-Bawerk's has, at least, the merit of being more exactly consistent with his fundamental presuppositions.

[3] *Natural Value*, p. 41.

[4] *Ibid.* p. 43.

sion, definitely made and consistently adhered to, would raise at once the question as to why this valuation may not take account of costs. The fundamental assumption of the theory could, however, not permit the concession of this critical point. Cost of production can, according to the theory, only be understood as determined by the exchangeable value of the goods produced, and in no sense as itself a factor in this determination.

The difference between the two theories in this respect does not, therefore, appear to be of any real importance. Though it is said that the seller does place a valuation upon his goods, it is a subjective exchange valuation, and in any case it is of no influence in the determination of price. It should then be explicitly noticed that this subjective exchange value of the seller is not represented as depending in any sense upon the already expended cost of the goods, as cost. This valuation regards possible future satisfactions, and not the amount of cost already sacrificed The amount of the future satisfactions expected in exchange for the goods may perhaps be measured by the amount which was expended upon them in costs, but the valuation is a valuation of future satisfactions and not of costs as satisfactions once for all abstained from. It is therefore the import of both statements of the Austrian theory that as a matter of essential principle the effort expended upon goods has no influence upon their value. There is doubtless some meaning in the ancient law of costs; there are indeed certain very important phenomena to which it exactly applies; but it is held that closer examination demonstrates in every case that the validity of the law is not ultimate. The Austrian theory then, holds (1) that the seller's valuation is a valuation wholly in terms of the consumable goods which may be ultimately obtained in return for the goods which he offers for sale, and (2) that this valuation can in the nature of the case not be of the slightest consequence in the actual determination of exchange value. It is therefore perfectly clear that no such idea as cost of production can play an important part in the theory. Cost of production is determined according to the theory, in the long run, by the value of the product.

The classical theory, that the causal influence runs in the opposite direction, is just the reverse of the truth. Its insufficiency is shown at once when it is provisionally accepted, and the further question is then asked as to what gives value to the costs. The immediate costs of production must surely possess some value, else they could impart none to the finished product, and the question as to the source of their value is therefore an entirely pertinent one. Upon the classical theory, it is said, there can be but one answer to the question. The value of the costs is determined in turn by their costs of production, and the value of these costs being determined in the same manner, the infinite regress is well under way. Accordingly the classical theory must, we are told, finally rest its case upon the principle that labor, the ultimate cost of all produced commodities, is therefore the source of all value. But this principle, in its consistent simplicity, can never be established, for by what conceivable process can labor as such impart value to a commodity upon which it has been expended? How can the mere expenditure of irksome effort—which indeed is never undertaken except for the sake of some commodity or other result antecedently judged to be useful—ever itself impart any utility to a commodity? How can effort ever be a source of value, if value be understood, as it must be understood, as the capacity of a good to satisfy a human want? The truth is that only useful labor is valuable; labor is valueless which is spent in the making of objects which are found upon completion to satisfy no human want. The conclusion is inevitable, it is held, that utility, and not labor or cost of production, is the central conception in the theory of value.[1]

Whence, then, has arisen the impression that, in the modern economic world, cost of production is a fact of such fundamental importance as to be in truth the sole regulator of exchangeable value? How can this be supposed in the face of the fact that cost as the source of value is logically so inconceivable? The

[1] *Natural Value*, Editor's Preface, p. 21; *Positive Theory of Capital*, p. 179.— See *Natural Value*, book v. chap. vii. for a refutation of the idea of cost of production of labor.

apparent validity of the law of cost of production, answers the theory, is the result of complications introduced into the logical simplicity of the operation of the marginal utility principle by the modern facilities of exchange. Under ideally simple conditions the value of the finished product determines the value of the aggregate of its costs of production, this aggregate in turn confers the same value upon the next earlier group, and so on to the end of the production series. According to the implication of this assumption of simplicity, the production goods used at each step in the long process have no other possible use than the one in which they are actually consumed, and the result is evident that we have the substantial identity, at every stage, of the value of the particular good under consideration and its cost of production. But the conditions of the modern economic world are not thus ideally simple. Instead of a single use, practically all production goods, such as raw wool or steel billets, have very many uses, very many more kinds of uses than the finished products into which they may enter. This important fact suggests at once a twofold question. The finished products made from a single production good — the cognate products as they may be called — are of different kinds and satisfy different kinds of wants. They therefore possess different marginal utilities and presumably therefore have different values. It may even appear in consequence that the cost good or raw material must be differently valued in the case of each particular employment of it. But this is only too evidently impossible. The twofold question then is, (1) which particular kind of finished product is to determine the value of the raw material in question and, (2) what relation is this value to bear, after it has been determined by the value of one of the cognate products, to the values of all the rest?

The key to the solution of this question, it is answered, is the fact of perfect freedom of exchange in the modern market. If we could imagine the industrial world to be divided into a number of independent groups without mutual intercourse, each one devoted to a particular branch of iron manufacture, and each

one dependent, for the prosecution of this branch of industry, upon its own particular mines, then the value of raw iron would undoubtedly be determined in each case by the value of the finished product, and would probably vary accordingly from group to group. But the economic affairs of particular countries and even of the world are not thus disjointed. Each industrial group, to continue the illustration, in fact purchases its iron in what is to all intents and purposes the same world market. Let it be supposed then that in a special branch of iron manufacture, which may be assumed to be unusually productive, a shortage of raw material occurs. It may further be supposed that the supply of iron cannot be increased at once. If it be permissible to use the expression, society must effect a redistribution of the existing iron supply and, just as an individual would do, it will so redistribute it as to suffer the least possible loss of utility. An individual who proposes to use a limited supply of lumber in the construction of a house surrounded by an ornamental fence will sacrifice the fence and not the roof, should a portion of his lumber be unexpectedly lost, and estimate accordingly the value of the missing quantity. In a word, the value of a production good must always be determined by the value of the least useful of the cognate products into which it enters.[1]

With the value of the cost good thus determined by the value of its least useful product, the value of the other cognate products cannot long remain out of correspondence with it. If the raw material is easily obtainable in the market, the competition of undertakers may be relied upon to bring about a general equalization of values upon this common foundation. The process, from the point of view of society at large, is in no essential particular different from that of the individual who, having many cognate articles of differing marginal utilities, nevertheless values them all according to the common cost of replacing them. No higher price will be paid for the most necessary iron products, in spite of their high degree of utility, than is paid, relatively

[1] *Positive Theory of Capital*, book iii. chaps. v. and vii. for a fuller statement; *Natural Value*, book v. chap. iv.

speaking, for the least important ones. The "disutility" resulting from the loss of one of the more useful commodities will at once be made good from the existing iron supply, and if this be supposed to be limited, the ultimate result of the loss will be the production and hence the enjoyment of one or more commodities less of the least useful kind. The question which was raised concerning the relation which obtains between the value of a given raw material and the values of the different products manufactured from it may therefore now be answered. The values are all substantially identical. The value of the least useful product determines the value of the cost good and this in turn determines the value of all the others. In the last resort of course the values of the cognate products accommodate themselves to the value of the least useful product, the marginal product of the cost good. It is however perfectly correct, though it is perhaps misleading, to say, for the sake of convenience, that the cognate products are in the first instance valued according to the value of the production good from which they come.[1] "Here then," the theory assures us, "we have the whole truth about the celebrated law of costs."[2] This law, in so far as it is valid, is nothing more than a statement concerning the value of cognate products, such as is given in an abridged form above, and is not, as is so often supposed, an ultimate law of value.

It is necessary, even at the risk of tediousness, to follow the discussion of this portion of the subject somewhat further. We

[1] *Positive Theory of Capital*, p. 187. For example, "If we are considering what a good B or C (generally speaking, a good of higher immediate marginal utility) is worth for us we must say first of all, It is worth exactly as much as the means of production from which we could replace it at any moment. Then if we examine further how much the means of production themselves are worth we come to the marginal utility of the marginal product A." (*Ibid.*, p. 188.) Again "a cupboard and a table are in themselves different goods; reduced to their productive factors they are of the same nature, belong to the same class of supply and receive a corresponding expression of value. The law of costs is . . . used . . . where the connection of goods . . . can only be recognized after reduction to the productive elements of their manufacture."—(*Natural Value*, p. 184.)

[2] *Positive Theory of Capital*, book iii. chap. x. p. 188.

have just seen how, according to the Austrian theory, the alertness of the undertakers brings the values of all cognate products into correspondence with the value of the cost good. Is not this after all, it may be asked, a regulation of value by cost of production? The theory appears to answer that it is, but the admission is qualified. It is indeed true that from above and from below the prices of cognate products come together at prices corresponding to the value of the cost good, but it should never be forgotten that the value of the cost good is itself determined by the value of its marginal product. All the products, and also the cost good itself, thus conform to the law of marginal utility, and together receive the value of the least remunerative employment. But how is it, it may next be asked, with the case of a fall in the price of the cost good, due not to a fall in the value of its marginal product but to an extension of its production? Prices will certainly fall over the whole range of cognate products and without any change in their marginal utility. Is not this a plain case against the theory we are stating? In order to answer the question, we are told, we must press the analysis a little further backward. We must ask why the production of the cost good is extended, and this question may be answered almost as soon as it is asked. The reason for the extension is the "suction power" which all human wants exercise upon the original productive powers of nature. Wants are ever ready to absorb any possible supply of products which may be offered. Thus it may be assumed by way of illustration that the cost of producing commodities of a certain class has been passing through a continuous series of reductions, and that at each step in the process the price has accordingly regularly declined, and a wider and wider range of wants has progressively been satisfied. If, however, at the limit of two shillings the entire stock of the required original powers is taken, two things are definitely decided; all wants which cannot pay two shillings must go unsatisfied, and no want will be required to pay more than this marginal sum — the valuation of the last buyer who is satisfied. Wants however are awaiting satisfaction below the level of two shillings and the

tendency is always towards their gratification as soon as it becomes in any way a possibility. Improved processes of production or discoveries of fresh resources in the depths of the earth thus find ready employment; raw materials under these fortunate circumstances seek less renumerative employments than before, their value therefore falls and, last of all, the value of the whole group of cognate products in any particular case finds a new adjustment at the lower level. And in all this, we are reminded in conclusion, the values of all commodities are subject at all times to the influence of the law of marginal utility. The facts of everyday life which at first sight appear to contradict the law, turn out upon patient examination to be the very strongest proofs of its validity.[1]

In concluding this sketch of the theory attention should be called once more to the all-important influence of the value of the marginal product. It is this which gives value to the cost good in question, and it is towards this that the values of all other commodities of the same order inevitably gravitate. Whatever forces operate in the definition of this fundamental value are consequently to be accounted the universal determinants. Upon this central point the criticism of the theory must in the first instance be directed.

Before proceeding to the criticism of the Austrian theory of value, we should first determine the extent to which the discussion of cost which has just been outlined, really bears upon it. It may be said at once that it is impossible to see that it has any bearing whatever upon the only point of fundamental importance in the theory. It will be remembered in the first place that in the determination of exchange value as originally described,[2] the finally decisive factors were the valuations placed upon the commodity in question by the competing buyers. It will also be remembered that the sellers' valuations of their goods were held, to be in no sense determined by their cost, but

[1] *Positive Theory of Capital*, book iv. chap. vii., especially pp. 227, 228 and 231, 232; *Natural Value*, book v. chap. iii.

[2] *Positive Theory of Capital*, book iv. chaps. i–vi.

by a calculation of the enjoyments for which their price was expected to exchange. Lastly, it was seen that the sellers must sell their goods at some price or other, and that, therefore, they must ultimately yield to the inevitable and final decree of the buyers. In this typical process, cost of production evidently plays no part. Now, this is the precise point at issue, and it is not further illuminated by the long discussion of the law of costs which follows.[1] This discussion, as we have just had occasion to observe, shows that in the market valuation of a group of cognate products, the value of the marginal product, through the mediation of the resultant value of the cost good, is the determining fact. Upon the really important point, however, the value of the marginal product, nothing more satisfactory is offered to the reader than iteration of the conclusion which is doubtless believed already to have been established. This chapter on the Law of Costs, in so far as it is designed in any way to strengthen the preceding argument, can scarcely be considered successful. It is apparently intended to dispel, by way of supererogation, the illusion of the ultimate importance of the law of costs, after the substantial work of destructive argument has been completed. But, after all, the belief may remain that the value of the marginal product, to say nothing of the values of the others, is in part determined by its cost of production, and in this event, the Austrian theory can only resort to an implicit appeal to the outcome of the original discussion. It appeared to be necessary to enter upon an examination of this chapter in order that full justice might be done the theory, although it is difficult to appreciate its polemical importance. It may indeed transpire that instead of being a source of strength to the law of value which it is believed so strikingly to illustrate,[2] it contains a number of admissions which are dangerous, if not fatal to it.

The criticism of the Austrian theory of value upon which we are now about to enter, is designed primarily to do no more than exhibit the connection which obtains between the theory and

[1] *Ibid.*, chap. vii.

[2] See for example, *Natural Value*, p. 178.

the particular view of subjective value, to which reference has already been made. It must not be understood that it is offered either as a thoroughgoing criticism of the theory in all its details and implications, or as a basis for a general estimate of the value and significance of the theory as a body of economic thought. It is intended only to call attention as definitely and directly as may be, to the fundamental point in the theory of value, which, it is believed, must receive the most careful examination before any further progress can be made toward a satisfactory termination of the controversy. In order to bring the central question of subjective value distinctly into view, the discussion will proceed upon the following plan: It will first be argued that the Austrian doctrine that sellers' valuation can, in the nature of things, exercise no influence upon market value, is unsound, because it rests immediately upon two unjustifiable assumptions. In this branch of examination it is immaterial for our purpose what the nature of this valuation may be, whether according to costs or otherwise. The question in the first instance is wholly one of mechanics. We may simply assume the existence of the force, and on this basis it will be sought to show that it is really present as an influence in the processes of the market. The second step will be to show that sellers' valuation is not based upon a calculation of the future consumption goods for which the wares are expected ultimately to exchange. The third step will be to show that this inadequate view of sellers' valuation is a direct consequence of the theory of subjective value which the Austrian school appears to hold.

With respect to this first point, the Austrian theory, to repeat the statement already made, holds that the valuation of the seller can exercise no influence upon the determination of market price.[1] There appear to be two chief reasons for this fact. The first is the one already mentioned above—explicitly stated as the only one by the theory—namely, that the seller must effect an

[1] It is unnecessary from the present point of view to preserve the distinction between market value and market price, and for the sake of convenience the terms are therefore used interchangeably.

exchange, and must therefore close the bargain with the buyers upon the most favorable terms which they will allow. The second reason does not lie so plainly on the surface, but it is none the less evident on examination and none the less vital to the proposition in hand. It is, in brief, that the valuation schedules of the buyers, during their sojourn in the market, are inflexible.[1] It must be admitted that, if these assumptions be valid representations of fact, the buyers have decidedly the command of the situation. But nothing appears more plain than that neither the one assumption nor the other can seriously be defended as actually true. If the sellers of goods must sell them, and have determined so to do, the valuation which they place upon their goods cannot be a matter of any importance in the fixing of their price. To say that they have withdrawn their valuation, literally means that, for them, as Professor Böhm-Bawerk says, the goods possess no effective value. The case is strengthened by the other assumption. The buyers are represented as entering the market, each one desiring only a single commodity, or at best a fixed schedule of commodities in which the several marginal utilities are expressed in terms of money. These subjective exchange values in each case constitute a superior limit above which the buyers will on no condition purchase. Thus even should the sellers conceivably persist in valuing their goods, upon one or another basis of estimation, there would be no possibility of an actual exchange at any price not satisfactory to the last included buyer. But since the producers have perforce determined to sell, there can be no question about the result. The buyers compete according to their respective capabilities, that is according to the subjective exchange values which each one for himself has fixed upon, and it must inevitably result that "the market price is determined by the valuation of the last buyer.[2]"

[1] *Positive Theory of Capital*, p. 203. *Natural Value*, p. 80

[2] *Positive Theory of Capital*, p. 221. "The law of price may quite correctly be still more simply stated as follows: Price is determined by the money equivalent of the current marginal buyer or class of buyers."—*Natural Value*, p. 43.

There can be no more effective answer to these assumptions, the one explicit, the other implicit, than a reference in either case to fact. In the first place, it does not appear that the sellers in the market are definitively obliged to part with theirgoods, in the sense in which the theory under consideration logically requires this to hold true. An examination of the particular passages in which the converse of this statement occurs, discloses the curious and significant fact that no indication is afforded, or even hinted at in them, as to the time within which the sellers must consummate the exchange which is represented as so necessary.[1] And yet it is very clear that such a statement, without some specification as to time is not especially instructive. If the sale need not take place at any particular time, the result is in general the same at any particular point of time, as if it need not take place at all. And if the sale need not be made, the only reason for its occurrence at any particular time must be the fact that an adjustment of a price has been effected in which both buyers and sellers have played a part, and with which they are satisfied. It thus appears that the Austrian theory at this point falls short of such a definite specification as is essential to its validity.

Such a definite specification can not be incorporated into the theory without violating the facts of the economic world. In the case of a few commodities, for example fresh fruits and the more perishable vegetables, the period of time during which they may be withheld from unremunerative purchasers is somewhat narrowly limited. With the imperishable staple commodities, wheat, corn, iron and steel, lumber and coal, the period is not absolutely without limit, but it is practically indefinite. And in no case, probably, is the definite time at which a sale must be made in order to escape total loss unalterably and rigidly determined in advance upon the entrance of the commodity into the market. Indeed, a temporary total loss is sometimes preferred by dealers to an extreme depression of the market, and the goods in question are consequently actually destroyed. It is

[1] *Positive Theory of Capital*, pp. 220, 221. *Natural Value*, p. 41.

not, however, the present contention that the manufacturer or merchant can, normally, refuse to part with his goods, even though prices fall to a ruinous level.[1] Enforced sales at a considerable loss are sufficiently familiar phenomena, and indeed constitute the manifestation after the fact of so-called industrial overproduction, that is to say, overproduction reckoned from the point of view of a normal rate of return upon capital. It is, however, contended that there is a substantial margin of time, after the entrance of every commodity into the market during which the valuation of the seller may be, and is, in force as an active influence.

It is, indeed, further true that the buyers are not, as the theory seems to imply, wholly unconstrained with regard to the time within which they may effect their purchases. By this it is not intended to refer to the occasional necessity, on the part of the individual buyers, of outstripping one another in competition for a certain supply of scarce goods, but the necessity of concluding the purchase without indefinite delay, which acts upon the whole class of buyers as such. With respect to many commodities it is necessary for the intending consumers to purchase at once and upon the best terms which may be obtainable. It is even roughly true that this necessity is most pressing in the case of a large number of the most important commodities exchanged in the market, and that these are the very commodities which the merchant or producer is, normally, least anxious immediately to dispose of. The staple food products, clothing, fuel and many luxuries which have become articles of habitual consumption are examples directly in point,—in general, all articles which must be regularly consumed in somewhat definite quantities.[2] It is only in the case of such perishable articles as have been mentioned, that the desirability of immediate exchange on the one side coincides with the absence of imperative need for immediate purchase on the

[1] The considerations which tend in every case to prevent an absolutely unlimited period of waiting, are too obvious to need detailed enumeration.

[2] For example those which satisfy the more urgent "kind of wants."—*Positive Theory of Capital*, p. 144.

other. These facts are certainly not offered in evidence to show that the sellers are in absolute control of the market, nor are they intended to show that the advantage in this respect is not rather, on the whole, upon the side of the buyers. The facts cited do indicate, however, that there is abundant reason, in the nature of the actual position of the sellers in the market for all commodities, for a sweeping qualification of the theoretical assumption under consideration. Yet the assumption without qualification of this kind is necessary to the support of the proposition that seller's valuation is of no effect in price determination.

The second assumption upon which the discussion of exchange value proceeds is that of an inflexible superior limit to the demand of the particular buyer for the commodity he wishes to purchase. The buyers in the typical case which Böhm-Bawerk describes,[1] desire only one commodity, and each individual buyer has his estimate of its value to him duly and definitely expressed beforehand in terms of money. The highest price, for example, which the most capable buyer is willing to pay for the article is fixed at £30. The estimate of the next is £28, of the next £26 and so on down to the tenth buyer who has fixed his limit at £15. Throughout the elaborate and ingenious explanation which follows, of the mechanism of price adjustment, these valuations never change, and the price finally settles in the neighborhood of £21 the original valuation of the sixth buyer.

Now the most obvious objection to this exposition is that the buyers do not normally enter the market with any such rigid valuation of the commodities which they desire. The normal attitude is an attitude of inquiry, with perhaps several courses of action held in reserve from which a proper choice may be made when more definite information has been obtained. The matter may be more clearly understood by considering briefly the implications involved in the simple act of valuation, and we may make a beginning in this direction by considering the apparently more complex matter of valuation in terms of money. Money should be

[1] *Positive Theory of Capital*, p. 203.

understood to signify to its possessor, from the present point of view, so much command over goods in general, and the immediate and definite meaning of a certain sum of money to any one is accordingly determined by the lines of habitual expenditure which have become established through the individual's occupation and tastes. It thus appears that the expression of the marginal utility of an article in terms of money signifies an estimate of the relative importance of the article to the person concerned, as compared with other goods. It may be evident from this that the mere fact of the intervention of money in the process of valuation is not a matter of essential importance. It merely facilitates the extension and the definition of a process of relative valuation which was always in operation before. In other words the valuation of an article whether expressed definitely in terms of money or not, must even in the simplest possible case involve an implicit estimation of all the other articles which constitute the range of the individual's habitual expenditure and interest. The same statement is of course true of every other article in turn, when interest happens to be concentrated upon it and an expression of its value is desired.

This slight indication of the facts of the case goes to show the existence of a variable system of values pertaining to every individual, in which each member — each value of a particular thing — is in turn implicitly constituted by relation to all the rest, and outside of which system there can be no such thing as value at all. It will be noticed that the view here put forward is only one aspect of the general truth that every act of consciousness, however simple from certain points of view, is in reality essentially complex. Any act of valuation, then, implies a valuation more or less explicit, of all other goods within the individual's range of habitual interest. It is to be noted, however, that valuation only makes itself manifest as an effective and concrete reality when it is given expression in actual conduct in the market, and in order that it may thus receive expression, the individual must reduce the valuation which he places, say, upon an article he desires to purchase, to some definite terms. In accordance with

the principle of substitution, then, the valuation in question will be expressed in terms of what is judged to be the least important commodity, whose value at the time functions as an element in the system.[1] If therefore we suppose that any article known to the individual is valued—that for any reason it has received his specific and direct attention—its value is accordingly estimated in terms of what is at the time the least desirable note of expenditure. The conclusion must be that subjective value is implicitly relative to the whole system of the individual's valuation experience, and explicitly relative to that mode of expenditure embraced within it which happens to be least esteemed at the time.

It follows from this that goods are not valued in and of themselves, in abstraction from each other. Every valuable article is essentially, for human beings, the use which can be made of it, that is to say, the relations which can be established by the individual between it and other things, and it is only in such relations that it is valued at all. Now, if it be true that things are not valued out of such relations, that they are not, for example, valued for the sake of any definite state of feeling which each one of them, in and of itself and by virtue of its own inherent qualities, is able to produce, then it must be evident that the value of a thing to everyone is susceptible to constant change. To state the matter concretely, the buyer who enters the market in search of a definite commodity does not enter with a rigid and inflexible estimate of it, unless indeed he has definitely determined to make not the slightest change in the smallest detail of his customary manner of life. Unless, in other words, he has decided that he will not alter, to any extent whatever, the amount of his least important or least desirable mode of expenditure, the amount of this expenditure which he will forego in order to acquire the commodity is essentially a variable amount. The subjective value of the good which he desires to purchase is therefore necessarily indeterminate upon his first

[1] See *Positive Theory of Capital,* book iii. chap. v. for a fuller statement of the principle.

appearance in the market, and is open to the influence of such circumstances as he there may ascertain. It is doubtless true that in the case of all valuable commodities there is a margin of flexibility of this kind which varies in extent with the urgency of the want, whether "concrete" or "generic"[1] whose satisfaction is involved. Indeed the very fact that interest has been directed upon a certain object and that for the time being this object is desired above all others, makes the existence of such a margin in every case most probable. There is certainly such a margin in the case of goods the need of which is urgent and the purchase of which is immediately necessary. If, therefore, the buyer finds a certain price demanded by the seller—whatever may be the seller's principle of valuation—somewhat in excess of his earliest conjectural estimate, a process of adjustment will begin and the price will finally settle at a point determined by the ability of the seller to wait and the degree of the desire or physical necessity for purchase on the part of the buyer.

The results obtained may be briefly summed up. With respect to the *sellers* in the market, there is always a more or less extended period of time during which a sale need not be effected except upon terms in the adjustment of which the sellers exercise an influence. That the sellers must sell is a meaningless proposition without some definite specification as to time, and no such specification can in any case be made without allowing for some interval. Further, it is often true that this interval is longest with respect to those commodities of which the buyers are, normally, least able to delay the purchase. On the side of the *buyers* there is a margin of variability in the degree of sacrifice which will be made in order to acquire a valued commodity, greater or less according to the degree of change which the individual is able to introduce into his general habits of purchase and consumption. Any particular subjective valuation is, by its very nature, a member of the individual's whole system of such valuations, and this system is normally undergoing constant modification with respect to the relative positions and

[1] For this distinction, cf., *Positive Theory of Capital*, book iii. chap. iii.

amounts of the various valuations of goods which constitute it, in accordance with the extension and development of the individual's range of experience. And these manifold changes are made, so far as it is possible in this connection to specify, from the point of view of the greatest efficiency and continued well-being of the individual concerned. It is believed that this description characterizes the typical buying and selling attitudes more accurately than do the assumptions of the Austrian school. Instead of rigidity upon either side of the market the actual condition is always one of flexibility. It may be concluded, therefore, that the mechanical conditions necessary to an effective assertion of the seller's valuation are actually present in the market, and that price moves along a line which is normally in part a resultant of this valuation.

It is now time to consider an objection to all that has just been said which must long since have occurred to the reader. Has not the entire criticism of the theory of exchange value been proceeding upon an inadequate apprehension of the significance which the Austrian school really attaches to it? What has just been said is a criticism of the theory considered as an account of single market transactions. Did its authors ever suspect or desire that any such interpretation might be placed upon it? Suppose that the criticism is a valid one from the point of view of particular transactions at particular times, does not the Austrian theory that seller's valuation is of no importance still hold with perfect validity concerning transactions in the long run? It may be true that the sellers may limit the supply at any particular time by withholding their goods from sale, and that the buyers must accede to their demands, by force of habit or conventionality or even of physical necessity, but is it not the meaning of the theory simply that in the long run the sellers cannot exact from the buyers more than the goods they desire to purchase are subjectively worth to them? It may be true that the subjective valuations of the buyers are flexible in particular cases, but will not the interests of the sellers gradually tend to bring the supply of goods into exact correspondence with their

normal subjective value to their purchasers, so that no withholding will be necessary? We are told, indeed, that "use value exists of itself and sanctions the cost value,"[1] and must it not therefore sanction sellers' valuation in general? In short, is not the Austrian theory one of normal value—of the tendency of market values, whereas our criticism has narrowly understood it as a theory of market value, a theory of the transitory fluctuations of price?

The new conception which has thus made its appearance in the discussion is evidently that of normal value, though under a new aspect and in a new connection, and it is necessary briefly to devote some attention, by way of digression, to the general meaning and logical function of this concept in the theory of value. As the conception is used in the present connection it serves to throw emphasis upon the side of normal demand in the market adjustment and to eliminate the factor of valuation upon the side of supply. Now it is exceedingly instructive to notice that the conception functions in precisely the opposite manner in the classical theory of value. Normal value, we are there told, is determined in the long run by cost of production,[2] while the disturbances, of which normal value is in some sense the average, are due, as disturbances of the normal, to the influence of fluctuating demand. Demand is undoubtedly present as one of the members of the equilibrium from which normal value results, but cost of production has all along been the fixed center to which demand was gradually becoming adjusted. The apparent facility with which the conception of normal value may be used in the service of two antithetical doctrines does not necessarily

[1] *Natural Value*, p. 177.—The precise relation between cost value and the seller's alleged valuation of his wares according to the consumable goods for which they will exchange, is nowhere clearly indicated. So far as the present connection is concerned, however, the two facts would appear to stand on the same footing. It is of course true, indeed, that this whole interpretation of the Austrian school is a matter of inference, though it seems to be sufficiently warranted.

[2] "Cost of production . . . . is undoubtedly the principal and most important of the conditions on which normal value depends" (CAIRNES, *Leading Principles*, p. 46). The other conditions are in general those which interfere with free competition among producers. Pp. 57–72.

argue its utter invalidity in every sense, but it certainly does suggest the desirability of an examination of the usual manner of its employment and the usual understanding of its character. For the sake of convenience and in order to assist in the discussion of the implicit use of the idea in the Austrian theory, the classical use of it will also be considered.

In the first place, normal value may be thought of in two apparently distinct ways. It may be the tendency toward a certain future condition of equilibrium which the course of market values discloses, or it may be understood as the general average of the market values of a commodity which obtains in the market at any given time. As Cairnes has shown, however, these two aspects of the conception tend to substantial coincidence in the case of all commodities which are regularly and freely produced, the range of observation necessary in order to exhibit this coincidence varying in extent in the different branches of production.[1] And at all events the two aspects are logically identical for the present purpose, which is to ascertain the essential nature of the conception as such with respect to market values. In either of its empirical aspects, normal value stands logically for the fundamental and standard element present in a great number of observed phenomena, bearing to them the general relation, as it may be termed, of the universal to the particular.

We may then ignore the empirical distinction, just noticed, between normal value as an average and as the ultimate goal of a tendency in time, and consider it in its logical relations to the particular phenomena of market value. And here, again, from the logical point of view, normal value is susceptible of a twofold interpretation. It may, on the one hand, be thought of as an abstraction, as a center of variation, a regulative principle, to be reached by a process of analysis and elimination. From the particular cases of market value as they are actually observed, the element which produces variation (abnormal demand on the classical theory, abnormal seller's valuation according to the

[1] *Leading Principles*, p. 44.

Austrian school) is to be abstracted, and the sum of the residues thus obtained is to be erected into the universal conception. On the other hand, it may viewed as the outcome of a process, as the result which has been reached at any given point of time, through and by means of an antecedent process of market variations. According to the first interpretation market values are looked upon as the oscillations of a pendulum, as variants or affections of the normal or abidingly generic—in a word, as determinations of a genus by a differentia. According to the second view, they should be considered as the successive and connected steps in a process, the outcome of which, up to any time, contains by implication all the causes which have been in operation throughout.

It was the purpose of the portion of the discussion just concluded to show that in actual cases of price determination as they occur from day to day, the valuations of both buyers and sellers are the forces actively in operation. As has been seen, it may be presumed that the Austrian theory need not at first sight, in so far as its application is strictly limited to market values, dissent from this proposition upon grounds of logical consistency. The classical theory of market value is in substance identical. "Market price—I speak now exclusively of price in wholesale markets—has from the first been seen to be connected with the agencies of supply and demand; it has always been obvious that an increase of supply tends to lower price and an increase of demand to raise it; but beyond this rather crude generalization economic speculation did not for some time pass."[1] With respect to normal value, however, the same condition of agreement does not obtain. In the logical transition

[1] CAIRNES, *Leading Principles*, p. 98: "The chief circumstances in which the determination of price in retail dealing differs from its determination in wholesale markets appear to be these two; first, competition in retail markets is conducted under conditions which may be described as of greater friction than those which exist in wholesale trade. . . . The other lies in the superior advantage which his superior knowledge [of market conditions] gives the buyer over the seller in the transaction taking place between them—a superiority which has no counterpart in the relations of wholesale dealers." *Ibid.* pp. 112, 113.

from market to normal value, either one of the two theories eliminates or suppresses the active influence of one of the original determinants—the Austrian theory, the factor of supply, or better the valuation of the seller; the classical, the factor of demand. However, the logical agreement of the two theories is for the present more significant than their disagreement as to the particular determinant force. They agree in fixing upon a single one as the force which determines normal value and in regarding the variability of market price as due to the fortuitous action of the other. Thus, for example, normal value according to the classical theory is determined by the conditions under which a commodity is produced. While it is true that even normal values undergo change from time to time "we can properly understand by the permanency predicated of such values . . . . that they remain the same so long as the conditions of production remain the same."[1] On the Austrian theory an analogous hypothetical assumption would be made with respect to the conditions of demand.

Now, both the usefulness and the validity of this method of logical procedure in economics may fairly be questioned, and particularly in view of the theoretical conflict in which it has apparently issued. A very brief consideration of the reasons which have led to its adoption may serve to exhibit its inadequacy in a sufficiently definite manner. It is evident, in the first place, upon the most superficial observation of economic affairs, that market prices are in a condition of instability and fluctuation, and further, that in this fluctuation a movement is evident towards some manner of stability. The nature of this normal value is therefore naturally a matter of great interest, and the appearance of the conception as a central one in the beginnings of modern economic theory is not surprising. And from the first the attitude of the economists towards the conception is significant. Adam Smith and Ricardo describe it as *natural* value, and in the same spirit John Stuart Mill thinks of it as the *necessary* value, into correspondence with which all

[1] *Leading Principles*, p. 44.

market values must sooner or later come. These terms suggest very strongly the idea of an actual and, in a sense, constraining value, somehow existing as a center of oscillation throughout all the course of prices in the market, ascertainably present in company with another, a differentiating factor, in every particular price, and definitely calculable in any case by an arithmetical process.[1] Market values were seen to be determined by demand and supply. Normal value was thereupon identified with the conditions of production as affecting supply, and market values could then be explained only as variants due to the temporary and fortuitous conditions of demand.

Into the origin of this logical tendency towards the analysis and sunderment of the individual instance in this particular manner we cannot at present inquire. The tendency, however, was there. This being true, the point next in question is the reason for the particular selection which was made, in pitching on one or the other of the determining factors as the normal. Why should the conditions of production rather than the conditions of demand have been fixed upon by the classical economists as the circumstance with which normal value, as normal, should be identified? The answer to this question appears to lie in the general theory of value upon which the practical sagacity and insight of Adam Smith had led him to found his system. It was, for sufficient reasons, most natural for him to isolate the elements, actually present and mutually operative at any given time in the fixing of market price, and to select one of them as the essential one, rejecting the other as the occasion of the particularity of the phenomenon. Given this tendency, and the theory that value depends upon labor, and it was the inevitable result that the determinant upon the side of supply in the case of market value should be fixed upon as the abiding and ultimately decisive one. We are accordingly told that a commodity is "sold precisely for what it is worth or for what it really costs the person who brings it to market,"[2] in language singu-

[1] Observe from this point of view the phraseology of *The Wealth of Nations*, book i. chap. v., earlier half.

[2] *Wealth of Nations*, book i. chap. vii, par. 5.

larly like that which was previously used in enunciating the principle that "the real price of everything, what it really costs to the man who wants to acquire it, is the toil and trouble of acquiring it."[1]

It is perhaps the most distinguishing merit of the Austrian school that they recognize in the most definite and self-conscious way the fact that the problem of exchange value is fundamentally a problem of psychology. The fact of this recognition must be considered as a very important contribution to economics, whatever one may think as to the merits of the actual psychological discussion of value which they have thus far presented. Without further considering the latter question in this connection, it should be noticed that the psychology of valuation which they appear to make use of as the foundation of their theory is of such a character as to preclude a rational interpretation of cost as such, as a determining moment in subjective value. It is held, in the first place, that seller's valuation is not determined by costs, but by expected future consumptions. In the second place, cost of production in the industrial process is consistently construed in a quantitative way as capitalist's expense.[1] It has already been observed that the Austrian theory manifests the same tendency to break up into two elements the particular case of market price, and to fix upon one as the ever-present and controlling constituent. With a psychological view of subjective value, from which the idea of cost as such is necessarily excluded, the factor in the determination of price in which, according to the understanding of the school, the psychological element is most conspicuous, was inevitably selected as the secret of normal value. This factor as we know was the factor of demand.

We are now in a position to understand the common logical function of the conception of normal value in these two conflicting theories. Both the classical and the Austrian school bring to the consideration of market price a preconceived theory as to

[1] *Wealth of Nations*, book i. chap. v. par. 2.

[2] *Natural Value*, book v. chap. ii.

the nature of value. This preconception determines, in either case, which one of the elements observed to be actively at work in the adjustment of market price shall be abstracted as the abiding and fundamental one, and which as the particularizing one. The conception of normal value, when reached by this method, whichever result may be the one subconsciously preferred at the outset, and so in the end obtained, amounts to scarcely more in substance than a surreptitious begging of the entire question at issue. The one theory observes empirically that values tend to an approximation to cost of production; the other that the cause of market values is a function of demand. The conception of normal value is then called in, virtually to forestall in either case, the necessity of a more searching examination of the reciprocal interaction of cost and demand and their resultant at the point of temporary equilibrium. In neither theory is the conception of normal value founded upon a genuine and impartial examination of the particular case. Its erection is in reality an arbitrary procedure, beginning in an abstract sunderment of the particular into its elements, then passing on to select one of them as fundamental and generic, in accordance with a preconceived theory of value, and ending necessarily in a dogmatic repetition, under the guise of a conception of normal value, of this original assumption.

The category of universal and particular, should be applied to the relationship of normal and market value in a very different manner. In the first place, we observe particular market values as they are actually constituted at all times by the interaction of demand and supply, and these in their actual condition, without abstract separation into genus and differentia, are our individual instances. Such a separation here, as in any analogous instance, can only be made on the basis of a definite presupposition. In the second place, we observe that the demand and supply are dynamic in their character and that the market values which they constitute are undergoing unceasing change. Now, the individual market price, as a logical individual, is a synthesis of particular and universal, and accordingly we must interpret the

logical relationship here existing, in the language of fact. In a word, the universal element in every market price is the fact of its determination by supply and demand, and consequently the fact that it is only a single step in a continuous process of movement and change. The particular element is the definite point at which the market price may happen at the time to stand. The full meaning of any market price lies therefore neither in the one aspect nor in the other, taken singly. It lies rather in the union of the two, in the fact indeed that the value stands at a certain definite point, but in this fact, interpreted in the light of the other truth that this value is the result of a previous process of market adjustments and the point of departure for the unending series which is to follow. On the classical theory, normal value can be thought of as a fixed point from which the variations of market price are to be measured, only so long, as Cairnes has told us, as the conditions of production remain unchanged.[1] Similarly, the Austrian theory should consistently say that there is a normal value, in the fixed sense, only so long as there is no variation in the conditions of demand. In either case the assumption of stability is determined by the precedent theory of value which is entertained, and the one assumption is, logically, as valid as the other. In a word, normal value or, as alone it can be intelligibly understood, an equilibrium value which remains stable for some considerable time, cannot be generically different from the other market values which have preceded it. It, like them, results from an equilibrium between the circumstances lying back of supply and demand, between the conditions of production on the one hand and the buyers' subjective valuations on the other. Value, as value, is always the same in character, and it is with value in this generic sense that the theory should, in the first instance, be concerned.

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[1] *Leading Principles*, pp. 44, 45.